



Rosalind M. Hewsenian
Managing Director

November 18, 2005

Mr. Mark Anson
Chief Investment Officer
California Public Employees' Retirement System
400 Q Street
Sacramento, CA 95814

Re: Currency Overlay External Managers – Annual Review¹

Dear Mark,

You had requested Wilshire's opinion with respect to Staff's recommendation pertaining to the annual renewal of the contracts of the external currency overlay income managers. Wilshire concurs with Staff's recommendations to renew the contracts of Pareto Partners ("Pareto") and State Street Global Advisors ("SSgA") as both managers have performed inline with expectations.

Discussion

The objective of the CalPERS currency overlay program is to provide risk control, or a reduction in the volatility of returns of CalPERS' international equity program. Currently, the currency overlay program overlays approximately 25% of CalPERS' international equity exposure.

Pareto and SSgA are both compared to a fully hedged benchmark for the reason that managers cannot be more than fully hedged. In a period during which foreign currencies strengthen against the U.S. dollar, currency overlay managers can add value by reducing hedges. Vice versa, when foreign currencies weaken versus the U.S. dollar, managers can underperform a fully hedged benchmark if they are not 100% hedged. Therefore, both managers' investment philosophies strategies strive to capture at least 65% of any available upside from currency gains during periods where the U.S. dollar weakens relative to foreign currencies, while limiting any losses to three percent below the fully hedged benchmark during periods of strength of the U.S. dollar relative to foreign currencies.

Over the one-year period ending September 30, 2005, the foreign exchange markets moved back and forth. Overall, foreign currencies were weaker versus the U.S. dollar.

¹ Wilshire's Code of Conduct requires us to disclose which firms are clients of Wilshire's Analytics Services Division. This disclosure has been delivered under separate cover.

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Due to the swinging markets and overall weakness of foreign currencies, both currency overlay managers underperformed their fully hedged benchmark. However, that is consistent with the managers' investment philosophies and both lost significantly less than three percent relative to the benchmark.

Conclusion

Since inception, both managers have performed inline with expectations. Wilshire concurs with the Staff's recommendation to renew the contracts of Pareto and SSgA.

Sincerely,

A handwritten signature in black ink, appearing to read "R. M. Leusenian". The signature is written in a cursive style with a large, stylized "R" and "M" at the beginning.